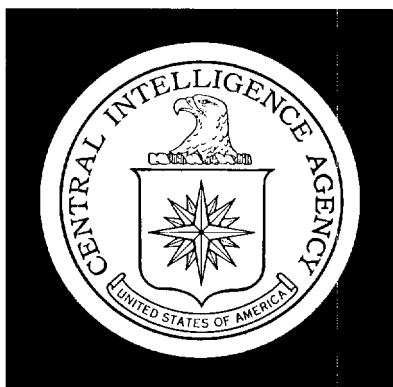


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Central Intelligence Bulletin

CONTENTS

AUSTRIA: Chancellor Kreisky has apparently decided to call early elections. (Page 1)

ITALY: The government is postponing controversial decisions. (Page 3)

PAKISTAN: An austerity budget. (Page 4)

EUROPEAN COMMUNITIES: General tariff preferences. (Page 5)

TUNISIA: The pace of political activity has quickened. (Page 6)

PHILIPPINES: Violent demonstrations likely (Page 7)

BELGIUM - CONGO (KINSHASA): Assumption of debt (Page 7)

SECRET

SECRET

AUSTRIA: With a controversial army reform bill and other legislation stalemated in Parliament, Socialist Chancellor Kreisky has apparently decided to call early national elections for October.

For the past 14 months, the minority Socialist Party has governed with the de facto support of the Freedom Party--a small postwar organization of quasi-Nazi origins. This arrangement permitted the Kreisky government in its early months to overcome the principal opposition People's Party on such issues as the 1971 budget and an electoral reform bill.

Kreisky's subsequent proposal to reduce the term of military service from nine to six months without taking offsetting measures to maintain defense effectiveness, however, has run into serious trouble. The Freedom Party would not support the government on this issue, the bill is stagnating in committee, and the resulting disturbed political atmosphere, much to the dismay of trade union leaders, has inhibited Kreisky's initiatives on social legislation. Recently Freedom Party parliamentarians joined with the People's Party to defeat an important price control bill, and only grudging last-minute assistance from the Freedom Party narrowly saved Socialist Defense Minister Luetgendorf from a vote of no-confidence last Thursday.

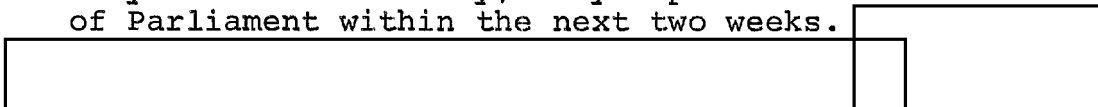
During a private discussion with the US ambassador last weekend, Kreisky said that he would not compromise his programs but would seek new elections in the hope of gaining freedom of action. Despite Socialist President Jonas' strong showing in his recent re-election, Kreisky personally doubts that the Socialist Party can gain an absolute majority, particularly since the electoral reform bill will enhance the Freedom Party's ability substantially to increase its parliamentary representation. Kreisky may hope, however, to gain a few seats at the expense of the internally weak People's Party.

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Few party and trade union leaders will be surprised when the election date is announced in mid-July. On the contrary, many expect the dissolution of Parliament within the next two weeks.



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30 Jun 71

Central Intelligence Bulletin

2

SECRET

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ITALY: In an effort to avoid divisive issues, the leaders of the governing center-left parties are inclined to postpone difficult decisions, perhaps until fall.

The government's reform program now calls for movement first on the less controversial reforms. Action prior to the summer recess is promised only on health care, economic stimulators, the development of the south, and tax reform. The government apparently hopes to put off until the fall further discussion of the controversial housing and agrarian rent bills that led to acrimony during the campaigning and apparently contributed to the electorate's rightward shift in recent local elections in southern Italy.

The Christian Democrats, reacting to election losses, appeared somewhat more conservative at a meeting of the party's directorate last week. Principal speakers called on the party to push reforms, tackle economic problems, strengthen law and order, and reaffirm the rejection of any kind of cooperation with Communists. The party decided, however, to postpone factional debate over management of the party until a Christian Democratic National Council meeting this summer.

The Socialists have indicated that they are unwilling to move toward greater conservatism or to bar acceptance of Communist votes on national reform legislation. In contrast, the Social Democrats have taken a somewhat more conservative stance and suggest they may again make an issue of the Socialists' participation with Communists in some municipal governments. Both Socialists and Social Democrats insist, nevertheless, that they do not seek a government crisis now.

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PAKISTAN: Islamabad has announced a harsh budget for the next 12 months that calls for maximum austerity and increased self-reliance.

The budget proposes major tax increases as well as enforced savings by highly paid military and civil service personnel. Revenue receipts are to climb 11.4 percent over fiscal 1971, with the small industrial elite in West Pakistan to suffer most from higher taxes. The embattled economy, however, probably will not produce the expected tax revenues, and the tax potential of the agricultural sector will remain relatively untapped. Military expenditures are to increase 6.3 percent, while development spending is to drop proportionately. No special provisions apparently have been made for the care of the six million refugees Islamabad now claims it is willing to welcome back from India.

The new budget assumes a 20-percent increase in foreign aid, much of which is already in the pipeline from pre-hostility commitments. If the outlook for additional aid does not improve, however, the development budget is likely to suffer a more severe reduction than currently envisaged. East Pakistan is budgeted to receive slightly more in the way of development funds than the West wing, and the East's share will be further increased only as additional foreign aid is made available for rehabilitation.

As a result of the troubles in recent months the rate of economic growth in the fiscal year just ending fell below the population increase for the first time in ten years. Tax receipts also were far below original budget estimates for 1971 as were development expenditures, with East Pakistan undoubtedly accounting for much of the shortfall. Official data show military spending up by some \$100 million or about 20 percent over 1970, but the actual increase may have been even greater.

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EUROPEAN COMMUNITIES: The EC's general tariff preferences for developing countries enter into effect tomorrow.

The preferences will provide duty-free entry for semimanufactured and manufactured goods produced in the developing countries, subject to quotas that may be especially restrictive for such sensitive items as textiles. They also grant tariff and levy reductions for specified processed agricultural products but carry an escape clause. Because the preferences are more substantial for manufactured goods, they should prove to be of greater benefit to the more industrialized of the developing countries. The program will apply initially to 91 developing countries, including Yugoslavia, but it may eventually be extended to Israel, Portugal, Spain, Greece, Turkey, Malta, Taiwan, and Cuba.

The EC's general preferences do not replace the Communities' preferential trade agreements with 28 African and Mediterranean countries. The benefits now received by these countries for manufactured goods will be diluted to some extent by the granting of general preferences to other developing countries, but the generally more important benefits for agricultural products will be little affected. The EC presumably hopes that by introducing general preferences it will reduce opposition from the developing countries to its preferential agreements.

EC spokesmen have referred to the introduction of general preferences as the EC's most important commercial policy decision since the Kennedy round and state that this action shows the EC to be "liberal, outward-looking, and aware of its responsibilities toward the developing countries." It has expressed the hope that other industrialized countries will put their preference plans into effect in the near future. Japan is now planning to implement its scheme on 1 August.

25X1

30 Jun 71

Central Intelligence Bulletin

5

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TUNISIA: The pace of political activity has quickened as preparations get under way for holding a by-election and the long-delayed congress of the Destourian Socialist Party.

In a speech last Friday, Prime Minister Nouira attempted to quiet rumors that plans to reduce the powers of the presidency had been abandoned. He emphasized that Bourguiba's proposals last June for constitutional revision remain the "framework of action for the Tunisian Government and the party." Bourguiba proposed that the government be made responsible to the National Assembly as well as to the president and that the burdens of the presidential office be lightened. At the same time Bourguiba appointed a "high commission" of the party to study and recommend constitutional amendments and to prepare for the party congress.

Nouira also announced that a by-election to fill three vacancies in the 101-member National Assembly would be held on 1 August. He added that recommendations for candidates would no longer be initiated at the local level and approved by the party's political bureau; instead candidates would now be selected by the high commission from lists proposed at the regional level.

The prime minister also confirmed that Bourguiba has not accepted the resignation of Interior Minister Ahmed Mestiri, who represents the party's reformist wing. Two personal appearances by Mestiri over the weekend, after he had been in obscurity for several months, suggest that the party leaders are making every effort to maintain party unity in preparation for the eighth party congress now scheduled for 29-31 October.

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PHILIPPINES: A price increase on petroleum products, effective tomorrow, will almost certainly trigger violent demonstrations against American oil companies, service stations, and the US Embassy. The administration passed the initiative to the oil companies on a price hike by letting price controls expire today. Although the government has promised full cooperation in protecting US property, the demonstrations, coming at the time that students are returning to Manila for the new school year, could be sizable and destructive.

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BELGIUM - CONGO (KINSHASA): The Belgian Government, in response to Congolese requests for financial help, has agreed to take over some \$125 million plus interest of its former colony's foreign debt and to provide \$1 million a year to Congolese veterans. The debt, which dates back to pre-independence days and is owed primarily to Belgian nationals, comprises about 40 percent of the Congo's foreign obligations. Although Brussels' action reduces Kinshasa's total foreign debt substantially, it will have little effect on the Congo's balance of payments. Yearly debt service of \$6 million and \$1 million annually in veterans' pensions will not go far toward offsetting a drop in copper export earnings that this year could amount to some \$90 million.

25X1

30 Jun 71

Central Intelligence Bulletin

7

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